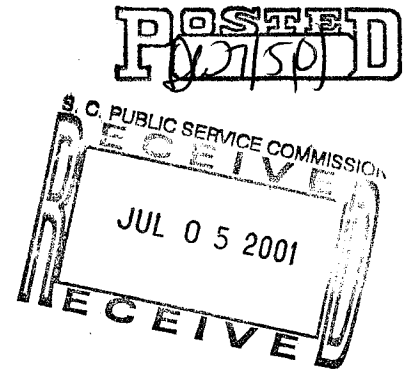


BEFORE

THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA

DOCKET NO. 2000-0207-W/S



IN RE:

Application of Carolina Water Service,
Inc. for adjustment of rates and
charges for the provision of water and sewer
service.

PRE-FILED REBUTTAL
TESTIMONY OF
CARL WENZ ON BEHALF
OF APPLICANT

1 Q. Mr. Wenz, have you reviewed the Commission Staff Report and the pre-filed
2 testimonies of the Staff Witnesses in this matter?

3 A. Yes, I have.
4

5 Q. Does the Company agree with any of Ms. Scott's proposed adjustments?

6 A. Yes, we agree with the adjustments which would remove the water wells in the I-20,
7 Lexington, and Watergate systems from rate base and which would remove from the test year
8 expenses the taxes paid to Lexington County. Since these plants are no longer used and
9 useful in the provision of service to the customers, the adjustments are appropriate.
10

11 Q. Should not other test year operation and maintenance expenses also be adjusted to
12 reflect the fact that these wells are no longer part of the Company's plant?

13 A. No, an adjustment is not needed since these wells were taken off-line before the test year.
14 Therefore, the Company has incurred no operation or maintenance expense on them which
15 have been included in the test year figures.
16

17 Q. Does the Company also agree with Ms. Scott's proposed adjustment which would
18 remove the wells serving River Hills from rate base?

RETURN DATE: OK 07/05/01
SERVICE: OK 07/05/01

1 **A.** No, we do not.

2
3 **Q.** **Would you please explain why the Company disagrees with this Staff adjustment?**

4 **A.** Certainly. The Company has not taken the wells in River Hills off-line and is maintaining
5 them in an emergency, back-up status. The primary reason for this is that the bulk water
6 supply from York County has been at times unacceptable to our customers. By having an
7 alternative available, we think it provides us with more leverage in dealing with York County
8 whenever quality problems arise. Also, although York County has addressed the quality
9 problem for the time being by way of its emergency interconnection with the City of Rock
10 Hill, we understand that there may be a dispute between York County and the Town of York
11 over the County's obligation to purchase its bulk water from the Town. The Town has
12 publicly stated that it intends to construct a surface treatment plant on Lake Wylie and that
13 it is counting on the bulk revenue from York County to finance bonds for that project. But
14 the project appears to be some years away from completion. If the Town is successful in
15 forcing York County to resume purchase of bulk water originating from the Town's current
16 reservoir source, our customers could end up with the same quality problems that arose in
17 1999 that Mr. Daniel describes. We think it is prudent to keep the wells in River Hills on
18 line so that the County and the Town understand that there is another alternative in the event
19 that further problems arise.

20
21 **Q.** **If the Commission were to agree with this Staff adjustment, would it not also be**
22 **necessary for the Commission to adjust the Company's operations and maintenance**
23 **expenses to reflect that the wells are no longer used and useful?**

24 **A.** Only for the taxes that the Company has paid on the wells. Because the wells have not been
25 operated since the interconnection with York County in 1996, no expenses have been
26 included in the test year expenses for operation or maintenance of them.

27
28 **Q.** **Are there other adjustments detailed in the Staff Report and testimony that you**
29 **disagree with?**

1 **A.** Yes, there are a few.

2
3 **Q.** **Please discuss the other PSC Staff adjustments that you disagree with.**

4 **A.** The first adjustment that I disagree with is Staff Adjustment #1 – Operators Salaries.
5 Although this adjustment is comprised of several components, I will only discuss one
6 specific component of Staff's adjustment. The Staff has disallowed the allocation of one half
7 of an operator. This operator splits his time between the Tega Cay service area and the River
8 Hills service area. The Staff has made this adjustment because we do not have timesheets
9 to support the allocation. Our operators do not keep timesheets that I can give to the Staff
10 to support that allocation. Rather, I think the Staff and the Commission should look at the
11 reasonableness of the manpower allocated to River Hills. Including the one half of an
12 operator at issue here, there would be a total of two and one half operators assigned to River
13 Hills.

14
15 **Q.** **What is the next adjustment that you disagree with?**

16 **A.** I disagree with Staff's Adjustment # 5 – Rate Case Expense. In this adjustment, the Staff has
17 disallowed a significant portion of the costs associated with this rate case. The Staff has
18 disallowed the time that I devoted to the rate case in December 2000. Additionally, the Staff
19 has not included the cost of the Cost of Capital witness. The witness has filed direct and
20 rebuttal testimony and will be in attendance at the July 11, 2001 hearing. It is my
21 understanding that the Staff has disallowed the cost of this witness because an invoice had
22 not yet been rendered at the time the Staff report was prepared. In the original filing I had
23 estimated \$20,000 for the cost of an expert witness. On June 6, 2001, Ms. Ahern provided
24 the Company with an updated estimate of her fees and expenses. The most recent estimate
25 of her fees and expenses is \$12,000, well below my original estimate. An invoice for
26 services will not be rendered until after the July 11, 2001 hearing. As such, the only
27 documentation available is Ms. Ahern's June 6, 2001 estimate. There should be no dispute
28 with regard to the fact that the Company has incurred costs for this witness. Consequently,

1 the Commission should allow this estimate to be included in the cost of the instant case, or
2 at the very least permit a late filed exhibit detailing the costs through the hearing date.

3
4 Additionally, the Staff adjustment does not include the cost of the Company's personnel or
5 legal counsel after May 2001. At the time the Staff prepared their report, actual costs were
6 not available for June 2001. Company timesheets and the June invoice for legal counsel are
7 available and have been provided to the Staff for review. These costs include \$7,083 for
8 Company personnel and \$33,587 for legal counsel.

9
10 Also excluded from the Staff's rate case expense figure was the cost of travel for Company
11 personnel. The original estimate of \$2,600 has been revised downward to \$2,200. This
12 updated figure includes the actual cost of airfare from Chicago, a rental car and lodging. An
13 estimated meal allowance for myself and witness Daniel has also been included. Available
14 documentation for these costs has also been provided to the Staff.

15
16 Attached hereto is Rebuttal Exhibit CW-1. This exhibit provides an update of the costs
17 incurred to date by the Company and an estimate of the reasonable costs to conclude this
18 case. The Company and the Staff agree on a three amortization period. Based mostly upon
19 actual cost figures, as well as a few reasonable estimates, the total costs associated with this
20 rate case are \$123,894.

21
22 **Q. Mr. Wenz, please discuss the next Staff adjustment that you disagree with.**

23 **A.** Staff Adjustment #22 – Plant Associated With Bulk Water Agreements is an adjustment to
24 the plant associated with the facilities that are not presently providing water supply to the
25 customers of the I-20, Watergate and River Hills service areas. As I have discussed
26 previously, the facilities at River Hills, while not presently in use, are providing a benefit to
27 the River Hills customers. Consequently, the River Hills facilities should be left in rate base.

1 The Staff has adjusted rate base to remove \$171,333 of net plant for the I-20 and Watergate
2 water supply facilities and \$116,786 of net plant for the River Hills water supply facilities.
3 The total of these two adjustments is \$288,119. If the Commission agrees with the Staff's
4 adjustment to remove these water supply facilities from rate base, it is appropriate that the
5 Company be allowed to recover the cost of these facilities as an extraordinary retirement.
6 To simply remove these items from rate base without allowing the Company a means to
7 recover these prudent investments would be punitive and unfair. These facilities investments
8 were prudent at the time they were made many years ago. Moreover, the conversion to bulk
9 water service was made at the request of customers and regulators. The conversion to bulk
10 service provides direct and tangible benefits to the customers in the affected areas. The fact
11 that the conversion to bulk service was made before the facilities were fully depreciated
12 should not result in financial impairment to the Company. The undepreciated book value of
13 these facilities are appropriately viewed as a cost of converting to bulk service and should
14 be recovered from ratepayers. It is not unprecedented for the Commission to allow recovery
15 of an extraordinary retirement. In Docket No. 94-116-S, and two subsequent dockets, the
16 Commission allowed Palmetto Utilities, Inc. to recover the extraordinary retirement of a
17 wastewater treatment plant. The Commission amortized the undepreciated cost over a ten
18 year period. A ten year recovery for the undepreciated cost of the water supply facilities in
19 this case would also be appropriate. The resulting expense would be \$28,812 ($\$288,119 \div 10$
20 $= \$28,812$).

21
22 **Q. Please discuss the bulk water service issue in the Westside Terrace and Idlewood**
23 **subdivisions.**

24 **A.** Staff witness Scott points out in her testimony that the Company has asked for approval of
25 bulk water agreements in these two service areas. The Westside Terrace application is still
26 pending. Any adjustment to revenues, expenses or rate base would violate the known and
27 measurable concept as the conversion to bulk service is not certain.
28

1 Idlewood has converted to bulk service. Therefore, the Commission should treat this system
2 in a manner consistent with the other bulk water systems (i.e. I-20, Watergate and River
3 Hills). In addition, the Company has incurred costs of \$22,223 to interconnect the Idlewood
4 distribution system with the bulk water provider. This expenditure is known and measurable
5 and is therefore properly included in rate base.
6

7 **Q. Mr. Wenz, please discuss Staff Adjustment #16 – Officer’s Bonuses and Salary**
8 **Increases?**

9 **A.** This adjustment recalculates the capitalized hourly rates of the Utilities, Inc. officer group.
10 These hourly rates are used to charge costs directly to specific projects. The hours charged
11 directly to a project are based upon timesheets that are maintained by each officer. That
12 portion of the officer’s compensation that does not get capitalized gets expensed to each of
13 the Utilities, Inc. affiliates through the annual WSC allocation process (SE-60). The Staff
14 has recalculated the officer groups’ hourly rates downward, which results in less dollars that
15 are capitalized, which results in more dollars that are expensed and allocated to the Utilities,
16 Inc. affiliates, including CWS. It is inappropriate to look only at the one side of the equation
17 as the Staff has done. The Staff’s adjustment to lower the officer group’s capitalized time
18 rates should therefore result in \$17,995 of additional expense allocated to CWS.
19

20 **Q. Mr. Wenz, have you reviewed the prefled testimony of Consumer Advocate witness**
21 **Bleiweis in this matter?**

22 **A.** Yes I have.
23

24 **Q. Does the Company disagree with any of the adjustments proposed by Mr. Bleiweis?**

25 **A.** Yes, there are several adjustments that have been proposed by Mr. Bleiweis that I disagree
26 with. The adjustments that I will address are as follows:

27 Utility Commission Expense

28 Test Year Expense Variance

29 Revenue Annualization / Customer Growth Adjustment

1 **Q. Please discuss the Consumer Advocate's adjustment to Utility Commission Expense.**

2 **A.** Mr. Bleiweis has challenged the Company's estimated cost of conducting this rate case. Mr.
3 Bleiweis first questions the idea that I have been involved in the day-to-day conduct of this
4 rate case. Mr. Bleiweis states in his testimony that "It is extremely doubtful that Mr. Wenz,
5 and only Mr. Wenz, prepared every aspect of the Company's filing." Based apparently upon
6 some inaccurate assumptions on his part, Mr. Bleiweis is quite incorrect on this point.
7 Unlike some larger companies that Mr. Bleiweis may be familiar with, my job
8 responsibilities include all aspects of a rate case. I prepared this rate case filing and have
9 been primarily responsible for all of the day-to-day aspects of this case. In addition to the
10 preparation of the application and the development of the Company's revenue requirement,
11 I have been the primary contact with the Staff. Starting in December 2000 and continuing
12 through the month of June 2001, I have spent 270 hours on this rate case. Mr. Bleiweis
13 criticizes the "barebones" filing and 11 pages of direct testimony that I filed. I would note
14 that our Application was filed and accepted in accordance with the Commission's rules and
15 regulations regarding the required content of rate case applications. In addition to the
16 preparation of the filing and the development of direct testimony, I have spent considerable
17 amounts of time answering the Staff's audit questions and responding to the Interrogatories
18 of the Consumer Advocate and the other intervenors. As the primary person responsible for
19 the Company's rate application, I have done more than simply "oversee" this case. This
20 statement can certainly be corroborated by the Commission Staff.

21
22 Mr. Bleiweis also challenges the 400 hours of WSC personnel that was used as an estimate
23 when I prepared the rate case filing earlier this year. As stated above, my actual hours to date
24 total 270. Using the Staff's calculated hourly rate, the total cost of my time through the end
25 of June is \$25,499. I estimate that I will devote approximately 60 more hours of my time
26 from July 1 through the end of the case. This includes the development of the Company's
27 rebuttal testimony, hearing preparation and attendance, and any post-hearing matters that will
28 surely require my time. This brings my total hours to 330, below the original estimate. I
29 believe that the hours spent on this rate case are reasonable, especially when one considers

1 the complexity of the issues, the fact that it has been over seven years since the last rate case,
2 and, the fact that Commission Staff, Consumer Advocate and the Intervenors all conducted
3 extensive discovery requiring the Company to provide significant amounts of information.
4

5 As discussed above, I have also updated the legal fees incurred in this rate case proceeding.
6 Through the month of June, actual legal fees totaled \$62,263. Counsel has provided me
7 with an estimate of \$10,000 to bring the case to a conclusion. This estimate includes
8 assistance with rebuttal testimony, hearing preparation and attendance, post-hearing briefs
9 and/or proposed orders, and any other post-hearing matters that may require counsel's
10 expertise.
11

12 The expenses of the Cost of Capital witness, travel, and noticing are also discussed above
13 and will not be duplicated here.
14

15 To summarize, the actual costs incurred by the Company, plus a reasonable estimate for costs
16 to be incurred through the conclusion of the case, total \$123,894. Mr. Bleiweis urges the
17 Commission to "allow total rate case expense of no more than \$120,000." Actual costs are
18 right at this threshold and should be allowed.
19

20 Mr. Bleiweis also urges the Commission to amortize these costs over a five year period. This
21 is inconsistent with past Commission practice. He states in his testimony that his five year
22 amortization period is based upon "...the actual length of time between the last and current
23 base rate proceeding." I do not understand this statement since the last base rate proceeding
24 was over seven years ago, and looked at in isolation, is not predictive of when the next base
25 rate proceeding will be filed. In fact, because there are so many economic and regulatory
26 factors that influence the timing of a rate case, there is no way to predict when the next rate
27 proceeding will be filed. Therefore, consistency and reasonableness should guide the
28 Commission. Both the Staff and the Company agree on the three year amortization period

1 because it is reasonable. If the Commission were to decide on the three year amortization,
2 the annual expense would be \$40,565.

3
4 **Q. Mr. Bleiweis has testified that Account 720.6 – Transmission and Distribution**
5 **Materials and Supplies for sewer – has increased between 1998 and 2000. He has**
6 **suggested that for ratemaking purposes, these increased expenses should be normalized**
7 **by taking a three year average. Do you agree with this approach?**

8 **A.** No I do not. As Mr. Bleiweis points out in his testimony, the Company has made several pro
9 forma adjustments to test year expenses and rate base. These adjustments reflect known and
10 measurable changes to test year expenses and were based upon the best information available
11 at the time the filing was prepared. Mr. Bleiweis has suggested that the Commission
12 abandon the known and measurable principle by simply taking a three-year average of this
13 one expense category. Mr. Bleiweis has not offered any evidence that these expenses were
14 imprudently incurred or that these expenses will decrease over time. The only justification
15 that Mr. Bleiweis offers for this adjustment is so that "... the Commission and the ratepayers
16 can be assured that the expense allowed for ratemaking purposes is representative of similar
17 expenses to be incurred in the future. In my opinion, absent data to support an arbitrary
18 averaging of these expenses, Mr. Bleiweis' proposal will only serve to guarantee that the
19 Company will not be able to recover these expenses. If Mr. Bleiweis has any data to support
20 the theory that these expenses are now in fact on a decreasing trend, or that any of these costs
21 were not prudently incurred, he should put forth the information.

22
23 **Q. Mr. Bleiweis has proposed a Revenue Annualization/Customer Growth Adjustment.**
24 **Do you agree with this adjustment?**

25 **A.** No I do not. However, before I address the adjustment itself, I feel it is necessary to address
26 Mr. Bleiweis' request that the Commission order the Company to supply the annualized
27 number of billed units. Mr. Bleiweis has basically requested that we prepare for him the
28 calculation of his revenue adjustment. I believe that such a request is unreasonable and not
29 within any requirements we may have regarding the conduct of discovery. Rather than make

1 the calculation for him, we have provided Mr. Bleiweis with all of the information that
2 would be needed to make the calculation himself.

3
4 With regard to the calculation itself, there is an obvious and significant flaw. Specifically,
5 Mr. Bleiweis has adjusted revenues but not the expenses that would increase with the
6 addition of customers. These expenses include all variable costs such as electricity,
7 chemicals, WSC allocations, meter reading, and billing costs. Such a one-side adjustment
8 is a violation of the matching principle. Mr. Bleiweis' adjustment is incomplete and should
9 be rejected.

10
11 **Q. Mr. Wenz, what is the Company's response to the assertion by River Hills customers**
12 **that their rates are already too high and that the request for rate relief should be**
13 **denied for that reason?**

14 **A.** The Commission should view this assertion in its proper context. First, and as the
15 Commission is already aware, the customers in River Hills have been receiving the benefit
16 of rates that are lower than those charged to our other customers since 1994. And, knowing
17 what the rates would be if the Company interconnected with York County, The River Hills
18 Community Association, or RHCA, YMCA Camp Thunderbird, and other customers
19 withdrew their opposition to the Company's interconnection with the County in the 1996
20 proceeding before this Commission that Mr. Daniel mentions. Moreover, and as the
21 Commission also knows, a complaint was filed against the Company in 1997 in Docket
22 Number 97-464-W/S by a number of organizations we serve in York County, including
23 RHCA. In that proceeding, RHCA contended that our service rates were too high and should
24 be reduced by the Commission. In Order Number 98-384, the Commission acknowledged
25 the Staff's testimony that the increase in service rates was attributable to York County's
26 increase in bulk rates. The Commission effectively rejected RHCA's claim in that regard
27 since it never ordered any change in our service rates in any of the orders in that docket. So,
28 the Commission has already considered and rejected the contention that our service rates are
29 too high. As to our impact fees, the Commission's Order Number 98-555 requires the

1 Company to waive impact and connection fees for residential customers in River Hills
2 subdivision for irrigation service, to provide irrigation meters for free, and to provide meter
3 boxes at our actual cost. These customers remain responsible for the charges associated with
4 installation of meters. This was part of a settlement reached between the Company and
5 Commission Staff to address concerns voiced by RHCA regarding the pass-through of York
6 County's sewer charges. RHCA had direct input into the terms of this settlement through
7 its counsel and Mr. Bob Harrington who was then serving as the RHCA Director of Utilities.
8 The Company is proposing no change to that arrangement, so any contention that our current
9 rates and charges are too high in River Hills has already been disposed of by the
10 Commission's orders in the previous complaint case.

11
12 **Q. Several customers have stated to the Commission that the Company's rates are out of**
13 **proportion to rates that they have been charged in other jurisdictions; would you**
14 **please comment on that?**

15 **A.** Yes. We do not believe that it would be appropriate for the Commission to set our rates
16 based upon what some other entity may have charged to a customer. Even were it
17 appropriate, the Commission has no real basis upon which to make the necessary comparison
18 in this case. For example, many of the customers commenting failed to state whether the
19 other entities from whom they had purchased utility services were governmental or private
20 in nature. This makes a tremendous difference since governmental entities have the ability
21 to raise "cost-free" revenue by way of property taxes. And, to the extent that they have to
22 borrow money, most governmental entities having bonding capacity which allows them to
23 acquire debt capital at a much lower cost than that which a private entity incurs in
24 commercial capital markets. Also, governmental entities have no obligation to their
25 shareholders to make a profit, nor do they pay any taxes. So, rates charged by governmental
26 entities should be lower than those of a private entity. Also, the Commission has no frame
27 of reference regarding the customer's usage patterns in other locations or the proximity of
28 service sources to the customers. Some of these customers may have been served by a
29 governmental entity whose facilities were in close proximity to the customer base.

1 **Q. Of what importance would differing usage patterns be?**

2 **A.** Many of the customers in River Hills are retirees. Because of that, they may have more time
3 for leisure pursuits which utilize larger quantities of water, such as swimming pools,
4 gardening, and so forth than they had during their career years.

5
6 **Q. Why does the proximity of the serving facilities to the customer base have a bearing?**

7 **A.** If you can reduce the distance between the service point and the service source, the
8 underlying capital costs associated with transportation of water and sewer are lowered. You
9 can see the cause and effect component of this in the current bulk service arrangement that
10 the Company has with York County. York County gets its water from either the Town of
11 York or the City of Rock Hill facilities and gets its sewer treatment from the City of Fort Mill
12 facility. The Company in turn gets its bulk service from York County for both water and
13 sewer. So, both the incoming water and the outgoing sewer have to travel quite a distance.
14 This is one of the reasons that York County's bulk rates to the Company are as high as they
15 are.

16
17 **Q. You mentioned York County's bulk rates; what are they and how does the Company**
18 **go about collecting them from its customers?**

19 **A.** Currently, York County charges \$3.11 per thousand gallons for water and \$3.47 per thousand
20 gallons for sewer. We pass that through to our customers without markup in accordance with
21 our Commission approved rate schedule.

22
23 **Q. How do York County's rates compare with other governmental entities providing bulk**
24 **services to the Company in South Carolina?**

25 **A.** The water rates are the highest of any bulk rate that the Company pays. For bulk water, the
26 Company pays the City of West Columbia \$1.85 per thousand gallons and pays the
27 Lexington County Joint Municipal Water and Sewer Commission \$1.96 per thousand
28 gallons. For bulk sewer, York County's are higher than all of our other providers except one.
29 The Company pays Richland County a flat monthly fee of \$11 per customer and the Town

1 of Chapin a flat monthly fee of \$16.20. The Beaufort Jasper Water and Sewer Authority
2 charges us \$3.50 per thousand gallons for sewer we collect at the Palmetto Apartments in
3 Beaufort, which is only a one hundred unit facility.
4

5 **Q. On a percentage basis, how do the York County rates compare with the other**
6 **governmental entities which provide the Company bulk services?**

7 **A.** York County's bulk water rates are 68% higher than West Columbia's and 57% higher than
8 the Lexington County Joint Municipal Water and Sewer Commission's. On the sewer side,
9 based upon the average usage in River Hills of approximately 6,000 gallons per month, the
10 York County bulk sewer rates are 47% higher than Richland County's 22% higher than the
11 Town of Chapin's, and less than 1% lower than Beaufort-Jasper's.
12

13 **Q. Mr. Wenz, have you reviewed the pre-filed direct testimony of Mr. Robert Harrington**
14 **on behalf of RHCA?**

15 **A.** Yes, I have.
16

17 **Q. What comments, if any, do you have regarding Mr. Harrington's testimony?**

18 **A.** I have several thoughts on the issues raised by Mr. Harrington. First, since Mr. Harrington's
19 testimony in March of 1998 in the complaint case brought by RHCA and others, it appears
20 that he has become involved in local government, now serving as a member of the York
21 County Planning Commission. I understand that to be a position appointed by the York
22 County Council. The map attached to his testimony is one prepared by York County which
23 shows the Company's service area franchised by the county. The data set forth in his exhibit
24 regarding planned development was obviously obtained from county records. Mr.
25 Harrington clearly has political connections on the county level. For the reasons I will
26 discuss later, the Company disagrees with Mr. Harrington's assertions regarding customer
27 growth and asks that the Commission reject them. However, the thought occurs to me that
28 if Mr. Harrington's analysis did have any validity, he ought to be able to use this same data
29 to address with the Council the county's comparatively high bulk utility service rates that I

1 just discussed. If he could use his political influence in that regard, it would certainly be a
2 benefit to his fellow residents in River Hills and the entire service area.

3
4 **Q. You mentioned that the Company disagrees with Mr. Harrington's analysis; would you**
5 **please elaborate?**

6 **A.** Yes. The bedrock principle upon which Mr. Harrington's analysis is based is his contention
7 that the Company has "always treated its Lake Wylie service area independently of its other
8 service areas in South Carolina". This is simply an inaccurate statement. In the 1997
9 complaint case in which Mr. Harrington testified, one of the primary points that the Company
10 made was that the River Hills system was part of a statewide system. In fact, in his
11 testimony in that proceeding, then Commission Deputy Executive Director Walsh agreed
12 with the Company and stated that the Company's system is a statewide system. Moreover,
13 the Commission's regulations adopting the Uniform System of Accounts for water and sewer
14 utilities, which are R. 103.517 and R. 103-719, do not provide for accounting of systems on
15 a subdivision or county franchise area basis. The Company has never accounted for the
16 River Hills system except as part of our statewide system.

17
18 **Q. Is it not true, however, that certain customers in River Hills have benefitted from lower**
19 **rates than those charged by the Company to its other customers?**

20
21 **A.** That is certainly true. As has been noted previously, the customers in River Hills subdivision
22 have had the benefit of a lower rate for water and sewer services since 1994 and the
23 Company has not received an increase in its rates there since 1993. The Commission has,
24 from time to time, recognized that unique circumstances may exist which warrant providing
25 some customers a different rate than other customers. That occurred in 1994 when the
26 Commission recognized that the Company was about to interconnect the River Hills systems
27 with York County's bulk system. Similar circumstances exist today with some of the
28 Company's sewer customers in other parts of the State and the Company, for that reason, has
29 chosen not to seek increases in their sewer rates in this case. This does not, however, mean

1 that the facilities serving River Hills, or the facilities serving any other part of our customer
2 base, are not part of the Company's statewide system.

3
4 **Q. Mr. Wenz, what would happen if the Commission were to regulate the Company and**
5 **set rates on a subdivision or geographic basis?**

6 **A.** To do so would mean that uniform rates would have to be abandoned. This, in turn, would
7 lead to chaos for the Commission, its staff, the customers and the Company. For example,
8 if each subdivision or other geographic area served by the Company had to be accounted for
9 and have its rates set based solely upon facilities serving that area, the Commission would
10 have to audit the Company's records in an effort to re-create the original cost basis for each
11 such facility. Since the Commission has adopted the Uniform System of Accounts, none of
12 the Company's books contain this information, and there would be a lack of sufficient
13 independent data since there has been no need for that the Company maintain such data
14 under the current system. The effort would then have to focus on estimates of original per
15 unit costs – which is clearly less desirable than known aggregate total costs which are
16 captured by the currently employed methods.

17
18 Even assuming that the Commission could obtain such original cost information for the
19 facilities serving distinct subdivisions or geographical areas, it would then have to determine
20 what rates would be charged to the customer groups served by these facilities. This would
21 be a Herculean effort that would lead to wildly disparate rates among various groups of
22 customers and different rates in just about every area. For those customers served by newer
23 facilities, the rates would increase dramatically, while customers served by older facilities
24 would see much lower rates. In addition to the significant dissatisfaction that would be
25 expressed to the Commission by customers in the areas in which rates would increase, the
26 time and effort demanded of the Staff to administer rate structures that would be different
27 for each such area would increase significantly. It is likely that the Company would also
28 have to employ additional personnel to deal with differing rate structures for each such area.
29 The Commission, Staff and company would constantly be subjected to customer demands

1 that the rates in higher cost areas be adjusted to the levels of the Company's customers in
2 lower cost areas.

3
4 **Q. Mr. Wenz, have you ever known this Commission to regulate water and sewer utilities,**
5 **or other types of utilities, in the manner in which you have described?**

6 **A.** No. I am not aware that this Commission has ever established different rate schedules on a
7 permanent basis for operating units that have previously been included in a statewide, or
8 uniform, rate structure. Temporary subsidies like the one enjoyed by the River Hills
9 customers over the past seven plus years do occur. As I acknowledged previously, there are
10 differences in the cost of service between different service areas. The most obvious and
11 significant difference in the cost of service arises when a system converts from "full service"
12 to water distribution only or sewage collection. This Commission has acknowledged this
13 differentiation by approving a separate rate structure for systems that get "full service" and
14 those systems in which a bulk service provider provides water supply or sewage treatment.

15
16 **Q. Have any other state regulatory bodies in which the Company's affiliates operate**
17 **converted from a statewide uniform rate structure to a system-specific rate structure?**

18 **A.** No. The North Carolina Utilities Commission looked at this issue in detail in the course of
19 a rate case in 1994. The case involved the Company's affiliate in North Carolina, Carolina
20 Water Service, Inc. of North Carolina ("CWSNC). CWSNC was organized in the same
21 manner as the Carolina Water Service, Inc. Both companies own and operate small water
22 and sewer utility systems throughout their respective states. Both companies have uniform
23 rate structures. In the 1994 rate case, CWSNC was ordered to rebuild its accounting records
24 so that the cost of service could be established for each individual system. Complying with
25 this order was a monumental task in terms of both time and money. Lacking the personnel
26 to undertake such an endeavor, it was necessary to engage the accounting firm of Arthur
27 Andersen to rebuild the Company's accounting records which spanned some 20 or so years.
28 The accounting records, which had been maintained on a company wide basis over the life
29 of the company, had to be segregated into system specific units. The total cost of complying

1 with the order was in excess of several hundred thousand dollars. The system-specific cost
2 of service study confirmed what all parties already knew – that there are differences in the
3 cost to provide service in different areas. All parties also realized that subsidies between
4 systems are dynamic and that over the long run, subsidies will balance out between systems.
5 In its order in that case, the North Carolina Utilities Commission decided in that case to
6 continue the statewide uniform rate. The costs associated with developing the system-
7 specific cost of service study were passed on to ratepayers.
8

9 **Q. Doesn't a uniform rate structure encourage subsidization?**

10 **A.** Subsidies do exist in a uniform rate structure for any utility, whether it be telephone, electric,
11 gas, water or sewer. Customers in River Hills received the benefit of such subsidies when
12 the facilities serving that area were new in 1976. Such subsidization is necessary to make
13 it economically feasible for a utility to operate new systems in their early years and for the
14 customers to be able to afford the services. More recently, the River Hills customers have
15 enjoyed the benefits of subsidized lower rates.
16

17 **Q. Doesn't it necessarily follow from this that a lower rate for River Hills customers is**
18 **appropriate from a regulatory standpoint since it is an older system?**

19 **A.** No. There is a difference between subsidies arising from regulation of a system on a
20 statewide basis and subsidies which arise because of special circumstances that from time
21 to time arise and present themselves to the Commission like those which existed in River
22 Hills in 1996. The former is a product of longstanding and well-established regulatory policy
23 observed by the Commission, while the latter is a product of the Commission's consideration
24 of a unique circumstance that only applied to certain customers. As I have previously stated,
25 the customers in River Hills have been subsidized by other customers since 1994. Mr.
26 Harrington's analysis not only would have the Commission continue that subsidization, but
27 also expand it.
28

1 **Q. In what way does Mr. Harrington's analysis expand the current subsidization of rates**
2 **charged to River Hills customers?**

3 **A.** Mr. Harrington contends that there is going to be growth in the Lake Wylie area. The
4 subsidization of River Hills customers can only expand if growth occurs and their rates are
5 not made uniform.

6
7 **Q. Do you agree with Mr. Harrington's approach to accounting for growth in the rate-**
8 **setting process?**

9 **A.** No, and there are several reasons why I do not. First, Mr. Harrington assumes that there will
10 be a certain amount of growth in our service area over a four year period. It is the
11 Company's position that projections of growth over a four year period do not meet the
12 known and measurable standard to which this Commission adheres in making adjustments
13 for events occurring outside the test year. There are a variety of events which could arise
14 over a four year period that could negatively affect the growth of residential development.
15 This fact is implicit in Mr. Harrington's analysis, which recognizes that growth occurs in
16 stages. Some reasons for this are that developers may not currently have the capital to fund
17 development of an entire proposed project, homebuyers may respond to economic stimuli
18 which delay or prevent the purchase of a homesite or construction of a residence, or other
19 events can occur which slow residential development. The Commission's rules relating to
20 the demonstration of customer growth in water and sewer applications, R. 103-512 and R.
21 103-712, recognize this by requiring that customer growth figures be projected out for only
22 one year. Secondly, the 2001 figures that Mr. Harrington uses, which I assume he obtained
23 from county records, do not track with our actual figures for customer growth to date this
24 year. As of May 30, 2001, we had only added 94 customers to the River Hills system – 48
25 of which are apartment units consisting of one, two and three bedroom units, none of which
26 will use as much water as a single family residential unit. On a pro-rated basis for 12
27 months, that means our actual experience is some 65 customers behind Mr. Harrington's
28 projections. We think that this disparity is demonstrative of the problems that can occur
29 when projections are based upon land use planning data versus actual utility operating data.

1 And, of course, the monthly service and "tap fee" revenue calculations Mr. Harrington makes
2 are directly affected by the number of customers.
3

4 **Q. The Company then also disagrees with Mr. Harrington's projections of growth in**
5 **monthly service revenues?**

6 **A.** Yes. In addition to being highly speculative with respect to the number of customers, Mr.
7 Harrington's calculation of additional monthly service revenues is faulty because it assumes
8 that all customers will use 6,600 gallons of water per month. The customers in apartment
9 units will not use anywhere near that amount of water. The average monthly usage in
10 apartments in the service area in the test year was only 3,739. Yet, even by his own
11 projections, Mr. Harrington assumes that apartment units will make up more than 52% of the
12 customers added in 2001. This error has the effect of overstating monthly service revenues.
13 Also, Mr. Harrington overstates the average monthly usage of water by some 632 gallons.
14 In the test year, the average monthly usage in the service area for all customers was only
15 5,968 gallons per month. As a result of this error, projected monthly service revenues are
16 further overstated. Moreover, Mr. Harrington's projections of monthly service revenues
17 wholly fail to take into account the additional expenses the Company would incur if its
18 customer base grows in the amount and at the rate he projects.
19

20 **Q. What comments do you have about Mr. Harrington's projections of tap fee revenue?**

21 **A.** Mr. Harrington seeks to include all of his projected tap fee revenue in the Company's
22 revenues for ratemaking purposes. This is inappropriate since plant impact fees and
23 connection fees are accounted for as deductions from rate base as contributions in aid of
24 construction. Accordingly, it would be inappropriate for the Commission to consider his
25 projections in this regard, even if they were otherwise sound.
26

27 **Q. Is there any other aspect of the customer growth issue raised by Mr. Harrington that**
28 **you would like to comment upon?**

1 **A.** Yes, there is. But for the seriousness of this proceeding to the Company's financial health,
2 I would find humorous the testimony of Mr. Harrington and other River Hills residents
3 regarding growth in the Lake Wylie area. Just three years ago at a night hearing before this
4 Commission in Docket Number 97-464-W/S, the contention was made that the level of the
5 Company's impact fees was going to stunt growth in the Lake Wylie area. Now the worm
6 has turned and the Commission is being urged to consider how much that growth will
7 increase our revenues as a justification for denying us rate relief. Sadly, this inconsistency
8 is typical of RHCA's approach to matters involving the Company before this Commission.

9
10 **Q.** **Would you please elaborate on your last comment?**

11 **A.** Yes. As Mr. Daniel testifies, the Company has been tossed upon a sea of inconsistency
12 created by the various positions RHCA took with the Commission over the years on the
13 question of bulk service. Mr. Harrington states that the Company "prudently closed its wells
14 and treatment facilities and became a bulk customer of York County". He fails to
15 acknowledge that RHCA's demand for surface treated water was central to the Company's
16 decision to enter into a bulk service arrangement with York County. Once that was
17 accomplished, RHCA turned its attention to an effort to avoid the impact of the pass-through
18 of York County's bulk service charges by opposing the interconnection with York County
19 in 1996. Foiled in that effort, RHCA filed its 1997 complaint seeking to reduce the
20 Company's rates. When it became apparent that the increase in York County water rates was
21 the source of RHCA's complaint, the Commission refused to reduce our rates. Now, in light
22 of the Company's request that the subsidy of customers in River Hills by our other customers
23 be ended, RHCA asks this Commission to treat the River Hills facilities as something
24 separate and apart from the rest of our statewide system because the Lake Wylie area is
25 growing. To the extent that there is growth in this part of the Company's service area, it
26 ought not accrue only to the benefit of the Company's customers served by our River Hills
27 facilities. After all, the Company has experienced growth in systems serving other parts of
28 the State in the last seven years and none of the customers served by those systems received
29 special treatment.

1 **Q. If Mr. Harrington's projections of "explosive growth" in the Company's service area**
2 **do come true, is there an avenue which River Hills customers can pursue to make**
3 **certain that the Company does not earn in excess of its authorized return?**

4 **A.** Yes, and it is an avenue that Mr. Harrington and RHCA have previously traveled. Customers
5 can always file a complaint if they believe the Company is earning in excess of its authorized
6 return. I would add that all of the Company's River Hills customers have direct access to
7 their representative on the York County Council. If there is to be "explosive growth" that
8 will translate into increasing revenues for the Company, York County's revenues from water
9 and sewer service would have to grow apace. And if York County's revenues were to grow
10 in that manner, it would seem that the River Hills customers would be in a position to also
11 seek relief from the relatively high bulk rates that are charged to them by York County today.
12 Given Mr. Harrington's position with the County, I would assume that such a request would
13 be well received.

14
15 **Q. Mr. Wenz, do you have any information regarding the performance of the York**
16 **County water and sewer systems?**

17 **A.** Yes, I have obtained a copy of the County's Comprehensive Annual Financial Report for the
18 Fiscal Year ended June 30, 2000. (Rebuttal Exhibit CW-2). Based upon the contents of this
19 report, York County's water and sewer system is doing very well, collecting revenues of
20 \$4,582,151, earning net income of \$840,983, which results in an operating margin of
21 18.35%. This is a significantly higher operating margin than the Company would be allowed
22 as a regulated utility based upon the Staff's Report in this case.

23
24 **Q. Mr. Wenz, what does a River Hills customer pay for water and sewer based upon the**
25 **actual average residential monthly consumption of 5,968 gallons?**

26 **A.** In combined Company and York County charges, the amount would be \$70.22.

27
28 **Q. How is that amount derived and how much of it goes to York County?**

1 **A.** I have attached a schedule which reflects this combined charge and the relative amounts
2 charged by the Company and York County. (Rebuttal Exhibit CW-3). As this document
3 shows, the county collects \$39.27, or 56%, of the total average customers' bill.
4

5 **Q.** **Mr. Harrington also states that RHCA opposes the proposed rate increase because the**
6 **Company has "contained its cost of selling its commodities" because it purchases bulk**
7 **water supply and sewer treatment services from York County; shouldn't the**
8 **Commission take this into account in considering the Company's request for rate**
9 **relief?**

10 **A.** No. And the reason it should not is because it already has. As I testified in the 1997
11 complaint proceeding brought by RHCA, the Commission has already taken into account the
12 fact that the Company would have less operating expense when it interconnected with York
13 County by reducing the amounts that the Company can collect from customers receiving
14 water distribution and sewer collection services only. The Company proposes no changes
15 to the current rate structure in that regard, so the River Hills customers, just like our other
16 customers in areas served by bulk providers, will not pay us for water supply and sewer
17 treatment that they do not receive from us.
18

19 **Q.** **Does this conclude your rebuttal testimony?**

20 **A.** Yes, it does.

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	Legal	Notices	Travel	WSC Personnel	Cost of Capital Witness	Total
Estimate per Filing	\$ 100,000	\$ -	\$ 2,600	\$ 65,600	\$ 20,000	\$ 188,200
<u>Actual</u>						
Minuteman Press (all CWS customers)		5,328				5,328
Minuteman Press (River Hills only)		667				667
						0
Willoughby & Hoefler	Feb-01					10,309
Willoughby & Hoefler	Mar-01					5,439
Willoughby & Hoefler	Apr-01					5,809
Willoughby & Hoefler	May-01					7,119
Willoughby & Hoefler	Jun-01					33,587
				hrs.		0
WSC Personnel	Dec-00			42	3,966	4,008
WSC Personnel	Jan-01			36	3,400	3,436
WSC Personnel	Feb-01			39	3,683	3,722
WSC Personnel	Mar-01			13	1,228	1,241
WSC Personnel	Apr-01			23	2,172	2,195
WSC Personnel	May-01			42	3,966	4,008
WSC Personnel	Jun-01			75	7,083	7,158
						0
						0
						0
Travel						
Cost of Capital Witness					10,000	10,000
Actual-to-Date	\$ 62,263	\$ 5,995	\$ -	\$ 25,499	\$ 10,000	\$ 104,028
Estimate to Complete	\$ 10,000	\$ -	\$ 2,200	\$ 5,666	\$ 2,000	19,866
<u>GRAND TOTAL</u>	\$ 72,263	\$ 5,995	\$ 2,200	\$ 31,165	\$ 12,000	\$ 123,894
Over (Under) Estimate	\$ (27,737)	\$ 5,995	\$ (400)	\$ (34,435)	\$ (8,000)	\$ (64,306)

CAROLINA WATER SERVICE, INC.
Docket No. 2000-0207 - W/S
Average Residential Customer Bill

River Hills Area

Actual Average Monthly Consumption = 5,968

<u>Water</u>	<u>CWS</u>		<u>York County</u>	<u>Total</u>
Base Facilities Charge	\$	7.00	\$ -	
Commodity Charge (per 1,000 gallons)	\$ 1.50	\$ 8.95	\$ 3.11 \$ 18.56	
Total	\$	15.95	\$ 18.56	\$ 34.51
<u>Sewer</u>	<u>CWS</u>		<u>York County</u>	<u>Total</u>
Monthly Charge - per unit	\$	15.00	\$ -	
Commodity Charge (per 1,000 gallons)	\$ -	\$ -	\$ 3.47 \$ 20.71	
Total	\$	15.00	\$ 20.71	\$ 35.71
Combined	\$	30.95	\$ 39.27	\$ 70.22
CWS	\$	30.95		
York County	\$	39.27		
Total	\$	70.22		